

Message Text

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INFO AMCONSUL MEDAN POUCH
AMCONSUL SURABAYA POUCH

C O N F I D E N T I A L JAKARTA 4537

STADIS - EA ONLY////////////////////

E.O. 11652: GDS
TAGS: ENRG, EFIN, ID
SUBJECT: OIL SECTOR OUTLOOK

1. EMBASSY RECEIVED APRIL 7 COPY OF TREASURY MEMO POUCHED MARCH 23 ON INDONESIA'S FINANCIAL PROSPECTS AND IMPLICATIONS FOR U.S. GOVERNMENT POLICY. EMBASSY HAS BEEN CONTINUALLY UPDATING ITS ASSESSMENT OF INDONESIA'S OIL SECTOR AND FOLLOWING SUMMARY OF OUR CURRENT THINKING MAY BE OF INTEREST TO WASHINGTON. WE PLAN FULLER REPORT AT END OF MONTH.

2. PRODUCTION: BASED ON ACTUAL PRODUCTION DATA DURING PAST THREE MONTHS AND NEW INFORMATION FROM COMPANIES AND PERTAMINA, EMBASSY NOW BELIEVES INDONESIAN OIL PRODUCTION WILL AVERAGE ABOUT 1.67-1.68 MILLION BARRELS PER DAY 1978 WITH A PLUS OR MINUS 3 PERCENT RANGE OF ERROR. PERTAMINA AND MIGAS HAVE ALSO REVISED UPWARD THEIR ESTIMATES TO 1.64-1.65 MILLION BARRELS PER DAY. THERE IS ENOUGH UNCERTAINTY ABOUT THE RATE AND SUCCESS OF DEVELOPMENT ACTIVITY TO ALLOW LOGICALLY FOR EITHER A SMALL DECREASE OR A MARGINAL INCREASE IN PRODUCTION IN 1978, BUT IT APPEARS INDONESIA'S PRODUCTION IS PLATEAUING.

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3. RESERVES: EMBASSY DOES NOT CURRENTLY SUBSCRIBE TO 5.7 BILLION BARREL FIGURE MENTIONED IN TREASURY MEMORANDUM AND WE ARE COMFORTABLE WITH 10-12 BILLION BARREL FIGURE THAT IS CONVENTIONAL WISDOM IN OIL INDUSTRY. WE SEE NO NECESSARY RESOURCE CONSTRAINT ON MAINTAINING OR EVEN GRADUALLY INCREASING PRODUCTION THROUGH MID-1980'S, PROVIDED SUFFICIENT INVESTMENT IN DEVELOPMENT AND EXPLORA-

TION IS MADE. THE KEY IS WHETHER THE REQUIRED INVESTMENT WILL BE FORTHCOMING AND IF SO, WHAT WILL HAPPEN TO PRODUCTION IN THE 2-3 YEAR INTERVAL BETWEEN EXPLORATION AND COMMERCIAL PRODUCTION.

4. EXPLORATION AND INCENTIVES: EXPLORATORY ACTIVITY IS SCHEDULED TO INCREASE SUBSTANTIALLY IN 1978. WE DO NOT BELIEVE THE PLANNED LEVELS ARE SUFFICIENT TO GENERATE PRODUCTION THAT WILL OFFSET DECLINES IN EXISTING FIELDS BUT WE DO THINK THAT IF THE RATE OF INCREASE IN EXPLORATION CONTINUES THAT POINT COULD BE REACHED IN 1979. IN OUR JUDGEMENT, THE BASIC CONTRACT TERMS WITH LAST SPRING'S INCENTIVES ARE PROBABLY SUFFICIENT FOR COMPANIES WITH AN EXISTING PRODUCTION BASE IN INDONESIA TO MAKE NEW INVESTMENT IN EXPLORATORY WORK. EXPLORATORY SUCCESSES IN NEW AREAS, SUCH AS IRIAN JAYA OR THE SOUTH CHINA SEA, COULD WELL STIMULATE FURTHER INTEREST AND INVESTMENT IN INDONESIA. ON THE OTHER HAND, A YEAR OF DISAPPOINTING EXPLORATORY WORK MIGHT MAKE NEW INCENTIVES NECESSARY TO MAINTAIN THE PACE OF INVESTMENT, AND IT IS POSSIBLE THAT STILL UNRESOLVED IRS TAX ISSUE COULD UPSET THE INDUSTRY'S INVESTMENT PLANS.

5. MARKETING: INDONESIA IS HAVING DIFFICULTY MARKETING OIL, PARTICULARLY MINAS CRUDE, ON THE U.S. WEST COAST AND POSSIBLY ALSO IN JAPAN. MARKETING PROBLEMS COULD

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CAUSE SOME SHUT IN CAPACITY AND REDUCTION IN PRODUCTION DURING THE YEAR, ALTHOUGH WE STILL THINK IF NECESSARY THE COMPANIES CAN MARKET THE OIL FOR THE GOVERNMENT.

6. BASED ON CONVERSATIONS IN JAKARTA, WE UNDERSTAND THAT FOLLOWING A RECENT STUDY HERE, THE IBRD BELIEVES ITS EARLIER ASSESSMENT OF INDONESIA'S OIL PRODUCTION IN 1978 TO 79 TO BE OVERLY OPTIMISTIC. BANK REGARDS INCREASES AS UNLIKELY. COMBINED WITH IMPACT OF RISING DOMESTIC OIL CONSUMPTION, THE BANK MAY BE FORECASTING A DROP IN EXPORT EARNINGS IN 78-79. WE DO NOT HAVE FIRM DATA AND DEPARTMENT MAY WISH CHECK WITH BANK REPRESENTATIVES IN WASHINGTON.

MASTERS

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